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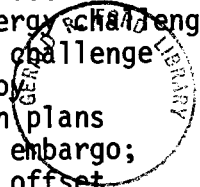
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INTRODUCTORY STATEMENT OF THE HONORABLE FRANK G. ZARB,
ADMINISTRATOR, FEDERAL ENERGY ADMINISTRATION, BEFORE
THE SENATE APPROPRIATIONS COMMITTEE, SUBCOMMITTEE ON
INTERIOR AND RELATED AGENCIES
THURSDAY, APRIL 29, 1976

Mr. Chairman and Members of the Committee, I appreciate the opportunity to discuss the detailed components of the Federal Energy Administration's Fiscal Year 1976 Supplemental and the Fiscal Year 1977 Budget Amendment. Before going into the specifics of the requirements in that package, I would like to place into perspective what this overall request is attempting to accomplish. The FEA has, with the aid of the Congress, approached a significant milestone in its short existence. Rather than planning our programs on a short-term, year-to-year basis, we have, with the passage and signing of the Energy Policy and Conservation Act (EPCA), the opportunity to base our planning on viable initiatives and specific mandates contained within that legislation. By combining the 40-month phased decontrol pricing program with the Conservation, Storage and Resource Development mandates of the EPCA, FEA's activities can play a major role in assisting the Nation to achieve its goal of independence from reliance on foreign suppliers by 1985. Furthermore, we recognize that it was - and remains - the intent of Congress under EPCA to have the FEA design and implement a program to free the Nation from the unnecessary and counterproductive burden of price controls at the end of the 40-month period.

It is extremely important for me to emphasize that, what is presented to you today is not a rehash of prior FEA budgetary submissions in an attempt to conform to the mandates of this legislation. We have carefully and conscientiously reviewed the entire programmatic effort of FEA and have made substantial changes in priorities and in the base to provide for the new missions assigned to us. Many of these tasks are designed to be accomplished in a very short time frame and we are anxious to gear up and get started on them. Longer range objectives contained in the legislation call for operational capacity now in order to realize the objectives which the Congress and the President intended in the passage and signing of the EPCA. To achieve this capability we have not only reordered our budget priorities, but have also examined the Agency's organizational structure and management processes to insure the FEA's programmatic responsibilities can be carried out in an efficient, coherent manner. Some changes have recently been made and others are in progress.

As you well know, the specific provisions of the EPCA are directed toward the use and conservation of all our resources to meet the energy challenge. The request before you today reflects the importance of that challenge by focusing on the requirements of the Act - providing standby authorities to implement rationing and mandatory conservation plans and to meet our international energy commitments in a future embargo; authorizing the creation of a Strategic Petroleum Reserve to offset

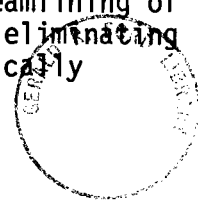


the impact of a supply disruption; providing both price incentives and production requirements to increase the supply of domestic fossil fuels; conserving energy supplies through State and Federal voluntary and mandatory conservation programs; implementing energy efficiency programs for industry, appliances and certain other consumer products; continuing the coal conversion programs of the Energy Supply and Environmental Coordination Act to reduce our demand for petroleum products and natural gas; and continuing to verify energy data to insure the reliability of the national energy data base.

In short, this request reflects these and other existing FEA programs which provide the focal point of energy management in all sectors of government. It is an important statement of direction based upon thorough and substantial review. There is an additional assumption built into the budget submission.. We have recently proposed, under the applicable EPCA provisions, that there will be decontrol of residual fuel oil, as we have testified previously. Elimination of unneeded regulations is a critical step toward the enhancement of our domestic supply situation. Should our decontrol proposals not be accepted, it would be necessary for us to staff up again in those Regulatory Program areas which we would be forced to continue.

As to our Regulatory Programs, I believe a word of explanation is in order as to the Compliance aspect. One might well ask why is an increase necessary when EPCA calls for the relaxation of controls? The reasons for this are fairly simple. In previous budget requests FEA has asked only enough staff to permit the completion of a one-time "wrap-up" program covering the period its regulations were in effect. When EPCA was signed into law on December 22, 1975, FEA developed plans for a Compliance Program to support continuing crude oil and propane regulatory controls over a 40-month period. It is also planning "wrap-up" programs for other petroleum products.

The size of the Compliance effort -- the number of people engaged in enforcing Regulatory Programs -- is a judgment call. "How much is enough?" We should not seek 100% compliance through audits. First, it would not be achievable and second, such an attempt would require thousands of auditors. We can, however, effect a program which will detect violations and, through deterrence, insure a satisfactory level of compliance with the regulations. The Compliance Program of 1,326 thru 1976, the Transition Quarter, and 1977 will give Congress and the American public an adequate program. However, we are not satisfied. Beyond that time, it is our intention to reduce our number of Compliance personnel thru productivity improvements and a general streamlining of the Regulatory and Compliance programs. These changes, by eliminating unnecessary and burdensome downstream controls, will drastically



Another program of great interest to Congress, FEA, and the taxpayers is that of Strategic Petroleum Reserve. This program was designed to lessen the Nation's vulnerability to petroleum supply interruptions. As we all will remember, the oil embargo imposed during the winter of 1973-1974 provided dramatic evidence that the United States is vulnerable to interruptions in imports from the major oil-exporting nations. The embargo was characterized by: (1) a substantial reduction in oil imports estimated at approximately 2 million barrels per day for 19 weeks, and in the various products of this oil; (2) a drastic increase in the price of import oil; and (3) its occurrence during a period of increased demand for petroleum products.

Although the economic impacts of these events on the U.S. economy are still under study and debate, most of the macroeconomic study estimates of the repercussions of supply denial and simultaneous price increases tend to indicate a Gross National Product (GNP) loss of approximately \$35 billion. Although not all of this GNP loss can be ascribed to the embargo, there is no doubt that it contributed significantly to increases in the Consumer and Wholesale Price Indexes. Although it is doubtful that this exact set of circumstances will occur again, it is possible that future supply interruptions could be longer and even more severe than the 1973-1974 Arab oil embargo.

The establishment of a Strategic Petroleum Reserve would contribute to international stability by: (a) serving to deter future supply interruptions, since the target nations will have available a quick response capability that will increase the potential costs of the Nations responsible for the shortages; (b) providing visible, practical evidence that the United States is capable of meeting its IEP commitments without depleting its petroleum supplies; (c) avoiding the adverse economic consequences of a severe supply interruption, regardless of the cause, in the United States; and (d) avoiding undue pressures on our foreign-policy stance.

FEA has submitted its Early Storage Reserve Plan which will detail how we are going to implement a program that will achieve 150 million barrels of oil in storage within three years. We will initially acquire and convert existing volumes in mines and salt domes in excess of 200 million barrels, but due to the physical fill rate limitations the amount of oil in storage will be limited to 150 million barrels in three years. The additional existing capacity of the storage facilities, of course, will be filled as a portion of the 500 million barrel program. Furthermore, these sites will be expanded through new construction to complete the storage of 500, or more, million barrels within seven years.

Another important aspect of FEA's responsibilities is implementation of the coal conversion program Congressionally mandated by the Energy Supply and Environmental Coordination Act of 1974 (ESECA) as recently amended by the Energy Policy and Conservation Act (EPCA).

This program will lessen our reliance upon foreign energy sources by requiring increased utility and industrial use of our most plentiful

domestic energy resource -- coal -- and decreased industrial use of imported oil and scarce natural gas.

Prohibition and construction orders issued pursuant to this Act will affect the use of an additional 200 million tons of coal per year by 1985. This translates into the equivalent of approximately 800 million barrels of oil for the year 1985, or 2.2 million barrels of oil per day.

One of the most significant aspects of this program is that we will not only be using a domestic energy source, but the American consumer will benefit as well. We have found that, for those utilities which have already been issued prohibition orders to date, there is a significant cost savings since the cost of using oil for production of electricity is more than twice the cost of using coal. And we can accomplish these savings while still protecting our environment through installation of necessary pollution control equipment.

The State Energy Conservation Program established by the EPCA will become the major focus of our conservation efforts in FY 1977. It alone will account for about 80% of our total Conservation budget request. Through this program, we hope to obtain the active cooperation of the States in efforts to achieve our national energy conservation goal. FEA will provide technical and financial assistance to the States for the preparation of conservation plans. Those States that meet the minimum requirements set forth by the EPCA will then receive funding for the implementation of their plans. Other conservation programs mandated by the EPCA that will be implemented during FY 1977 are: (1) the Industrial Energy Conservation Program, including the setting of energy efficiency targets for the ten major energy consuming industries and the monitoring of progress toward those targets; (2) the appliance labeling and energy efficiency targets program; (3) a national program to encourage the use of vanpools; (4) the Federal Energy Management Program, including the development and implementation of the ten-year program to reduce energy use in Federal buildings; and (5) a variety of public education programs directed at providing useful information on conservation measures to all energy users.

Energy savings as a result of our FY 1977 budget request are estimated to be on the order of 500,000 to 600,000 barrels per day by 1985.

Finally, we have taken a hard look at our internal organization and our management processes to insure that our present structure is in line with the program priorities I have described. For example, we have reorganized the Office of Communications and Public Affairs in order to retain the strengths of the old organization while reducing our efforts in some areas and decentralizing them in others.

In summation, Mr. Chairman, we have recognized the benefits and short-falls of EPCA and have moved to capitalize on the former and reduce vulnerabilities to the latter. We believe those changes already made and those forthcoming will enable use to implement the mandates of Congress and serve the American public.

The resource requirements requested are reflected below:

Fiscal Year 1976 Supplemental

1. "Salaries and expenses": The present appropriation for FY 1976 is \$142,992,000 to support 3,200 positions. An additional 930 positions and \$16,808,000 will be required to effectively carry out our responsibilities under EPCA.
2. "Strategic Petroleum Reserve": This supplemental request is for 100 additional positions and \$313,566,000 to implement the Strategic Petroleum Reserve program as mandated under EPCA.

Transition Quarter - July 1 through September 30, 1976

1. "Salaries and expenses": The present appropriation for the Transition Quarter is \$25,283,000 to support 3,200 positions. An additional \$13,017,000 is required to carry out our responsibilities under EPCA during the Transition Quarter. No increase in positions is requested.
2. "Strategic Petroleum Reserve": This supplemental request is for \$600,000.

Fiscal Year 1977

1. "Salaries and expenses": A total of 3,594 positions and \$193,157,000 is requested in FY 1977, a decrease of 436 positions but an increase of \$32,928,000 as compared to the revised amounts requested for FY 1976. The increased dollar amount reflects the \$48,900,000 amount for the new State Energy Conservation Program provided for under EPCA.
2. "Strategic Petroleum Reserve": A total of 150 positions and \$557,684,000 is requested in FY 1977, an increase of 50 positions and \$244,128,000 over the revised amount requested in FY 1976.

The justifications for these requests are contained in the detailed budget justifications furnished to the Committee.

Mr. Chairman, this concludes my prepared remarks and I shall be happy to respond to any questions you or the Committee Members may have.